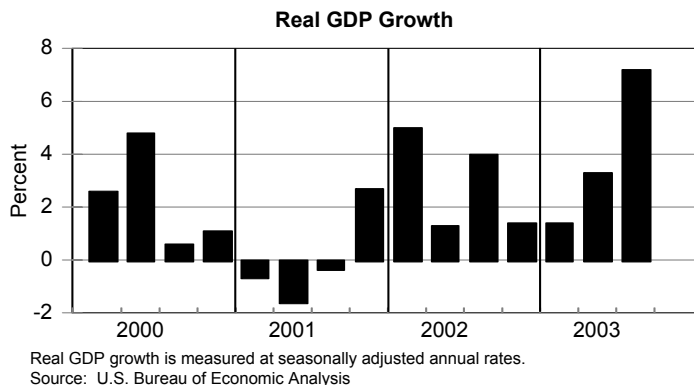




ECONOMIC GROWTH SURGED IN THE THIRD QUARTER

Production and income growth surged in the July-September period and inflation was moderate, according to estimates released today by the U.S. Bureau of Economic Analysis.

Gross domestic product (GDP), the most comprehensive measure of U.S. economic activity, increased at an inflation-adjusted annual rate of 7.2 percent in the third quarter, the highest rate of growth since early 1984 and more than double the 3.3-percent rate in the second quarter of this year. The acceleration mainly reflected stronger growth in consumer spending and an improvement in the trade balance, but fixed investment was also stronger than in the second quarter.



- Consumer spending on big-ticket items, on day-to-day consumer goods, and on services all accelerated. A sharp jump in real disposable income—largely reflecting the lower withholding rates and the payment advance of child tax credits mandated by this year's tax cut—helped finance the step-up in consumer spending.
- The improvement in the trade balance reflected both an upturn in foreign spending on U.S.-made products and a leveling off of U.S. spending on products from abroad.
- Residential investment posted its biggest increase in 7 years. Construction of both single-family and multifamily housing increased at double-digit rates, and brokers' commissions on house sales soared on the strength of record sales.
- Business fixed investment increased more than in the second quarter, as investment in equipment and software strengthened. However, investment in structures decreased for the ninth time in 11 quarters.
- Inventories were depleted more than in the second quarter, as businesses met the surge in consumer demand.
- Government spending eased off from its rapid second-quarter pace. Defense spending was unchanged after soaring in the second quarter, while other Federal spending and spending by states and localities increased moderately.

Prices paid by U.S. residents increased 1.9 percent in the third quarter after increasing only 0.4 percent in the second. The step-up mainly reflected a turnaround in energy prices. Excluding food and energy, prices increased 1.5 percent in the third quarter after increasing 0.8 percent in the second.

BEA's data—including GDP, personal income, the balance of payments, foreign direct investment, the input-output accounts, and economic data for states and industries—are available on its Web site: <www.bea.gov>.

NOTE: Additional information that becomes available in the coming weeks will be incorporated in a revised estimate of third-quarter GDP—including an estimate of corporate profits—on November 25, 2003.

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